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SUBJECT: BEHIND JAPAN'S SUSPENSION OF ASSISTANCE TO VIETNAM

REF: HCMC 801

Classified By: Ambassador Michael W. Michalak for reasons 1.4 (b), (d)

1. (C) Summary: Japan,s decision to freeze low-interest loans to Vietnam until it takes &meaningful8 steps to eliminate corruption in public works programs, publicly announced by Japan,s ambassador at a major meeting of donors and top Vietnamese officials, was a major embarrassment to Vietnam. While a joint investigation into the bribery case that triggered Japan,s decision continues, given the political connections of the Vietnamese official at the heart of the case it is unclear whether it will lead to meaningful action. End summary.

Background: Corruption Case Exposed, GVN Delays Action

2. (SBU) In November, four Japanese executives of Pacific Consultants International (PCI) pleaded guilty to paying \$820,000 in bribes to Huynh Ngoc Sy, Vice Director of Department of Transport of Ho Chi Minh City and Director of the East/West Highway Project Management Unit in charge of constructing the trunk road. He allegedly received the bribes in exchange for helping PCI win consulting contracts on the highway project. The case was reported by Japanese newspapers in June but Si was not officially suspended until November 19, and the two countries are now conducting a joint investigation into the case.

Biggest Donor,s Big Announcement

3. (SBU) In the December 4 annual meeting of the International Consultative Group in Hanoi (septel), Japanese ambassador Mitsuo Sakaba announced that his country would make no new loan pledges to Vietnam next year and would also suspend \$690 million in low-interest loans to support pending transportation and sewage projects in Vietnam. The remarks were delivered directly to the Prime Minister during the opening session of the Consultative Group, instead of during a later session on anti-corruption conducted after the PM,s departure. The announcement was an embarrassing blow to Vietnam, which receives more development aid from Japan than any other single country. In all, Japan pledged \$1.1 billion in low-interest development loans to Vietnam last year.

4. (SBU) Effective measures against corruption are needed &to regain the support from the Japanese public for further assistance to Vietnam,8 Ambassador Sakaba said. &Japan would like to urge the Vietnamese government to make continuous efforts to prevent the recurrence of corruption.8

Other donors, including the EU, U.N., U.S., and Denmark also commented on the issue of corruption during their opening remarks in front of the PM. (Note: The later session dedicated to administrative reform and corruption, but chaired by MPI, will be covered septel.)

15. (SBU) Following the remarks of the Japanese Ambassador at the CG, Prime Minister Nguyen Tan Dung said that combating corruption is a central and daily task for Vietnam and that the fight against corruption is crucial for the survival of the GVN. He stressed that favorable conditions for public and mass media to participate in the fight against corruption already existed, and that journalists who were recently jailed following their exposure of another corruption scandal (PMU-18) were tried because of legal violations, not corruption) to say otherwise is a lack of goodwill. The PM then addressed the PCI case specifically, saying that we asked for evidence from Japan but they cannot investigate here ...and we cannot try anyone on information received from the media.

16. (SBU) During the ODA commitment session at the end of the CG, Minister of Planning and Investment Vo Hong Phuc said that Japanese commitments would not be included pending the process with the Government of Vietnam but that he hoped to be able to add those amounts back in shortly.

Japan "Perplexed" by Reaction to Announcement

17. (C) Japanese Embassy officer Yoko Yamato told Poloff after the CG meeting that Tokyo is perplexed by the reaction to the aid suspension announcement because Japan had actually suspended aid a few months ago. The media has been slow to pick up the story, she surmised. However, she agreed that

HANOI 00001348 002 OF 002

the GVN and Vietnamese state-controlled press have not been aggressive in investigating the scandal. Given the \$820,000 in bribes PCI businessmen have admitted to paying, Tokyo believes more than HCMC, Mr. Sy is involved, though Tokyo is not pressing for more details, Yamato stated. Yamato had nothing to add on Sy's connections to Ho Chi Minh City Party Secretary and Politburo member Le Thanh Hai.

18. (C) The Japanese Government does not intend the aid suspension to pressure the GVN, Yamato continued. She conceded, however, that other countries have perceived the step as intended to do this. She added that small development grants and other minor technical assistance continue to be doled out to Vietnam. The joint Hanoi/Tokyo committee established to examine how aid is dispersed met for the first time last November, she explained. This committee will meet again in a few weeks to come up with concrete recommendations on to improve the ODA process, she said.

Comment: Will GVN Take Action on Corruption?

19. (C) Coming in the wake of the recent jailing of a reporter who exposed the PMU-18 corruption scandal, this case again calls into question the GVN's stated commitment to fighting corruption and Japan's decision represents major donor concern over the issue. While the GVN has promised that its joint investigation with Japan into ODA corruption will get to the bottom of this case, whether that will actually happen remains to be seen. Huynh Ngoc Sy's well-known connections as the future father-in-law to the daughter of HCMC Party Secretary and Politburo member Le Thanh Hai were thought to make him immune from prosecution (Reftel). The challenge for the GVN will be reconciling the seeming immunity from prosecution of those in the party hierarchy and those who enjoy their patronage with this significantly increased pressure to take meaningful action from Vietnam's top donor.

10. (U) This cable was coordinated with ConGen HCMC.
MICHALAK